

Trump Medicaid Fraud Probes Put Democratic-Led States to Test

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Democratic-led states are facing heightened pressure from the Trump administration over allegations of sweeping Medicaid fraud, a tactic that threatens to expand and test the bounds of federal and state collaboration on addressing the issue.

California, Maine, and New York are under intense scrutiny by the US Department of Health and Human Services for their oversight of their Medicaid programs, and state leaders are facing tough questions on fraud detection and corrective action. Minnesota could have [\\$2 billion](#) withheld annually by the HHS, which found the state's corrective action plan for combating fraud to be inadequate. It has since sued the federal government over its deferral of more than \$243 million.

The federal government's adversarial approach to the states in addressing fraud allegations is unprecedented, said Joan Alker, executive director at Georgetown's Center for Children and Families. "We've never seen anything like this in the history of Medicaid."

Medicaid is "the largest source of federal funding that comes into any state," Alker said. "You start unilaterally withholding a chunk of fed money, this is quickly going to throw any state budget into a cash flow crisis more broadly, and more obviously, in particular, threaten Medicaid payments to providers."

Medicaid fraud is a real problem. In 2024, Medicaid Fraud Control Units—which prosecute and investigate provider fraud and other issues—recovered \$1.4 billion, according to a Government Accountability Office [report](#).

Policy analysts say that, typically, the federal and state governments work collaboratively to address allegations, teaming up for a lengthy process to do things like identify data anomalies and finance fraud units. If something is amiss on the state's end, the federal government can request a corrective plan.

The Trump administration is taking a more punitive approach, using social media, agency inquiries, and the bully pulpit to suggest Democratic states are mismanaging their Medicaid programs.

Congressional Republicans have also launched their own Medicaid fraud inquiries into at least 10 states, after making substantial funding cuts to Medicaid through last year's sweeping tax and spending bill. The legislation included work requirements and other measures that are expected to cut federal Medicaid spending by about \$1 trillion over a decade.

"Medicaid agencies are being pushed to the breaking point in these states because they've already got to implement work reporting requirements" and more, Alker said. "We're going to continue to see this show between now and the election in an effort to distract midterm voters from the historic cuts to Medicaid."

Multistate Issue

Minnesota in its lawsuit accuses the Trump administration of denying its due process rights by deferring hundreds of millions of Medicaid dollars without giving the state a chance to prove that its funds shouldn't be withheld.

The Trump administration [said in a court filing](#) that its deferral is “proportionate to the magnitude of the documented fraud” and “reflects the scale of the documented problem—not an arbitrary exercise of authority.”

Previous probes of Minnesota Medicaid “exposed systematic fraud running to billions of dollars” and “revealed significant vulnerabilities” that “allowed fraudulent providers to enroll, bill, and receive payment with insufficient scrutiny,” the administration said.

The government's position suggests it believes it has broad discretion for deferrals, and can use them in an array of circumstances, said Jocelyn Guyer, senior managing director at Manatt, Phelps & Phillips LLP.

“This is not a single state issue,” Guyer said. She said the Centers for Medicare & Medicaid Services is [indicating](#) it was looking to use deferrals more often.

“Other states around the country should keep an eye on that situation,” particularly those that have received CMS letters, Guyer said. “If I were working in one of those states, I would have my antenna up, anticipating deferrals.”

States on Watch

In addition to Democratic-led states, Republican Florida has also received a [CMS letter](#) regarding health-care fraud.

States maintain they're committed to fighting fraud in their Medicaid programs.

In response to the CMS' inquiry, California's Department of Health Care Services [laid out](#) its efforts to combat Medicaid fraud, adding in an email that it views the “dialogue” as “as an opportunity to demonstrate California's leadership in program integrity.”

Maine, for its part, is pushing back. Gov. Janet Mills [said](#) she expects the President Donald Trump's administration to eventually withhold Medicaid funding from the state.

“We have answered the Administration's questions—but we know the substance and merit of those answers do not matter to them,” Mills said in a statement. She said Trump is taking a “political cudgel” against Democratic-led states “to desperately distract from his failing agenda.”

Trump administration approach suggests the letters “were not the end of their actions,” said Allie Gardner, health policy researcher at the Center on Budget and Policy Priorities. Its strategy “appears to be weaponizing fraud.”

Testing the Waters

Policy watchers say that whether states follow Minnesota's lead and sue ultimately depends on whether the Trump administration threatens their funding.

Steven Schmidt, a senior attorney with the National Health Law Program, said his group is researching its legal options, noting the importance of the rights of people harmed by the cuts.

"These cuts, these deferrals, withholdings are going to hurt the people with disabilities, the people who need the services the most," Schmidt said.

Of the threats to state Medicaid funding, Guyer said the administration seems to be "trying out whether or not this is a tool in its toolbox that it can deploy, and we're going to see a test case on it in the Minnesota litigation."

"If it is held up in Minnesota, I would expect to see it not just in the four states that have gotten the letters, but potentially more broadly and potentially for issues beyond the ones right in front of us now," Guyer said.

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